

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

July 13, 2000

The Capital Projects and Bond Oversight Committee met on Thursday, July 13, 2000 at 1:00 p.m., in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Robert Leeper, Vice Chair; Senator Tom Buford; and Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests testifying before the Committee: Bill Hintze, Governor's Office for Policy and Management; Mike Haynes, Natural Resources and Environmental Protection Cabinet; Commissioner Armond Russ and Jim Abbott, Finance and Administration Cabinet; David Bratcher, Economic Development Cabinet; and Tom Howard, Office of Financial Management.

LRC Staff: Mary Lynn Collins, Pat Ingram, Kevin Mason, Lola Williamson Lyle, Lou Pierce, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the June 20, 2000 meeting as submitted. The motion was seconded by Senator Leeper and passed by voice vote.

Chairman Haydon called on Ms. Mary Lynn Collins, Capital Projects and Bond Oversight Committee Staff Administrator, to review various items in members' folders, including correspondence from Finance Cabinet Secretary John McCarty transmitting a copy of a management agreement between Western Kentucky University (WKU) and the WKU Student Life Foundation; a status report from the Department of Parks Commissioner Kenny Rapier regarding the Parks Capital Maintenance and Renovation Fund; the Kentucky Lottery Corporation's monthly financial status report for May 2000; and the Administrative Office of the Courts' quarterly status report on court facility construction projects.

Representative Wayne said the WKU Management Agreement does not include several major provisions of House Bill (HB) 1011. (During the 2000 session, HB 1011 was passed by the House, but failed in the Senate.) He said this management agreement

represents serious public policy issues and the Committee needs to consider what parameters may be warranted in such an agreement. Representative Wayne asked that the President of WKU and the Auditor of Public Accounts Office be requested to appear before the Committee at its August meeting to further discuss the agreement. Chairman Haydon asked Committee staff to make the necessary arrangements.

Representative Damron asked about the status report provided by the Department of Parks concerning its Capital Maintenance and Renovation Fund. Ms. Collins said this Fund is an off-budget account and not part of the budget process; its funding source is certain park fees and charges.

Representative Damron noted that the estimated cost for projects to be funded from the Department of Parks' Capital Maintenance and Renovation Fund exceeds the funds available. He asked if staff had an estimate of the Department's anticipated revenue for the next two years. Ms. Collins said she did not but would find out and report back to the Committee.

Chairman Haydon next introduced Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management (GOPM), and Commissioner Armond Russ, Department for Facilities Management, to discuss a project submitted by the Finance and Administration Cabinet.

Mr. Hintze reported a \$169,700 allocation from the Capital Construction and Equipment Purchase Contingency Account for the Black Mountain Preservation project. The 2000-2002 Executive Budget allocated \$4.1 million for the state to purchase all timber rights and mineral rights above 3,800 feet on the mountain. Mr. Hintze said the Contingency Fund allocation will be used to cover interest charges which occurred from the date the Commonwealth agreed to the purchase of mineral/timber rights until the closing date. He then introduced Mr. Mike Haynes, Deputy General Counsel, Natural Resources and Environmental Protection Cabinet, to answer questions regarding this project.

Senator Leeper asked if the public will have access to this area of Black Mountain once it is purchased by the state. Mr. Haynes said students and instructors from public and private universities in Kentucky will have access, but the general public will not.

In response to a question from Representative Wayne, Mr. Haynes said the summit of Black Mountain is approximately 4,139 feet.

Representative Wayne asked what the environmental impact of this transaction is and if the uniqueness of the mountain will be protected after this purchase. Mr. Haynes said Black Mountain is the only mountain in the state above 3,800 feet, and because of

this, it has a unique ecosystem. He said there will be no mining and no timbering above 3,800 feet, so the ecosystem will be protected by the agreement. He added that the mining and timbering operations below 3,800 feet will not affect the areas above other than for some subsidence from the underground mining operations.

Senator Buford asked if there would still be a lot of activity at the base of the mountain caused by mining activities. He asked if the state will have to purchase the bottom portion of the mountain in the future. Mr. Haynes said that had not been discussed since the state became involved in the negotiations.

Chairman Haydon said this agreement represents a good compromise for all parties involved in the transaction.

Senator Buford made a motion to approve the Contingency Fund allocation for the Black Mountain Preservation project. The motion was seconded by Representative Damron and passed by voice vote. The revised project scope is \$4,269,700.

Chairman Haydon next introduced Mr. Jim Abbott, Director, Division of Real Properties, to discuss two emergency state leases and two state lease renewal contracts. Mr. Abbott first reported lease PR-4524, Cabinet for Families and Children, Office of Technology Services (Franklin Co.), with an annual cost of \$70,851. This emergency lease is needed to house part of the employees now in the Jones Building, a state-owned facility with numerous health-threatening conditions including asbestos. The state plans to do an abatement project and will then use the building for storage, primarily for the Finance Cabinet. He then discussed PR-1916, Cabinet for Families and Children, Division of Social Insurance (McLean Co.), with an annual cost of \$20,538. This lease is a temporary one, to only be in effect until construction of a new building the agency has leased is completed. Chairman Haydon said action is not required for emergency leases.

Mr. Abbott next reported two lease renewal contracts for leased property in Franklin County: PR-3404, Natural Resources and Environmental Protection Cabinet (NREPC), at an annual cost of \$175,000; and PR-4186, Governor's Office for Technology (GOT), at an annual cost of \$164,327.

Representative Wayne asked if a long-term plan still exists to consolidate all the NREPC leases in Franklin County. Mr. Abbott said the Finance Cabinet's 12-year plan involves the construction of a new Transportation Cabinet Office building, as well as refurbishment of a number of state-owned buildings. Once those buildings are refurbished, the state will have approximately 300,000 sq. ft. that could be used to consolidate a large cabinet like the NREPC.

In response to another question from Representative Wayne, Commissioner Russ said a new state office building, to address space needs but not necessarily targeted to the NREPC, was proposed during the 2000 General Assembly, but was not authorized. The proposal called for alternative financing such as a built-to-suit lease. Commissioner Russ said a similar request will be submitted during the next session because the pressure for office space is very significant. He said they will do their best to explain the need and the proposed plan of action. Commissioner Russ added that they recognize the NREPC's need to consolidate its offices.

Senator Leeper noted that the increase in space for the GOT lease (PR-4186, 1025 Capital Center Drive), was for common space (such as stairways and hallways) and not for office space. He asked if common space is typically included in other state leases. Mr. Abbott said in accordance with the statute, the state does not pay for common space unless it occupies the entire building, which is now the case at 1025 Capital Center Drive. He said the situation is a "catch-22" for the state. GOT was one of the first agencies to occupy this building, and the original agreement did not include common space since much of the building was unoccupied. Now, those empty offices have been filled with state agencies, and it has become necessary for the state to adjust for the common space not included in the original agreement.

Mr. Abbott said his office is completing the annual lease renewal process and historically, in Franklin County, there has been a 2.5%-3% annualized increase in rental costs. He said although the analysis of increased costs are not finished for this year, the percentage of increase will be higher because of the lack of competition. He explained that property owners are very conscious of this and it makes it much more difficult to negotiate a state lease that is favorable to the Commonwealth.

Representative Damron said when lessors raise the rates to the level they are now, the state should issue municipal bonds and construct its own buildings. He said the debt service for a bond issue would cost less than what the state pays in leasing costs. He suggested that the state should embark on a major capital construction program and quit leasing so many buildings. By doing this, increases in the remaining leases may be moderated due to increased competition.

Commissioner Russ said his office is designing a prototype office building which they plan to share with the Committee. He said this prototype office building would be functional office space, not "monument" space. Commissioner Russ said the projected state employee growth rate in Franklin County is 1/2%. This means the state will need approximately 30,000 sq. ft. of office space every year to accommodate new staff. He said the current rental rates are a reflection of the lack of new construction, and office space for state employees will be a significant issue in the coming years.

Mr. Abbott said for each of these leases, there was initially competition, but the competition included offers for new construction which were withdrawn once the bidders realized the projects were for lease renewal/replacement.

Senator Buford asked if the GOT leases an entire floor at Capital Complex East. Mr. Abbott said they are actually sharing the floor with the Department of Mines and Minerals, but the state is the tenant for the entire facility. He said the Real Estate Appraisers Board, the Department of Financial Institutions, and the Department of Juvenile Justice are also in the building.

In response to another question from Senator Buford, Mr. Abbott said each agency will pay a pro-rated share for common space based on the percentage of space that each agency occupies within the facility. He said as each of those leases lapse, they will have to add the agency's share of the common space to their lease contracts. Mr. Abbott said the state rents approximately 80,000 sq. ft. in the building.

Mr. Abbott said he would determine the increased leasing costs due to the common space and relay this information to the Committee. Senator Buford said it may be to the state's advantage to never rent an entire building.

Representative Damron made a motion to approve the lease renewals for PR-3404, Natural Resources and Environmental Protection Cabinet and PR-4186, the Governor's Office for Technology. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon then introduced Mr. David Bratcher, Cabinet for Economic Development, to discuss five Economic Development Bond (EDB) projects. Mr. Bratcher first reported on a proposed EDB grant in the amount of \$150,000 for the City of Bowling Green/Bowling Green Area Economic Development Authority. The city will use the proceeds of the EDB grant to purchase equipment and lease it to Stupp Bridge and Iron Company for five years at \$1 per year.

Representative Wayne asked if health care benefits are included for these jobs. Mr. Bratcher said he thought each of the companies were offering health benefits packages, but he would check and make sure. He said the numbers presented in the report, however, represent wages only and not benefits.

Representative Marcotte made a motion to approve the EDB grant for the City of Bowling Green/Bowling Green Area Economic Development Authority. The motion was seconded by Representative Wayne and passed by voice vote.

Mr. Bratcher next reported on a proposed EDB grant to benefit Pittsburgh Tube Company. The Cabinet is proposing to provide a grant of \$200,000 to the City of Hopkinsville, Christian County to assist with the purchase of equipment for Pittsburgh Tube Company. The city will lease the equipment to the company for five years at \$1 per year.

Representative Damron made a motion to approve the EDB grant for the City of Hopkinsville, Christian County. The motion was seconded by Representative Marcotte and passed by voice vote.

Mr. Bratcher next reported a proposed EDB grant in the amount of \$240,000 for the Lexington-Fayette Urban County Government/Lexington Industrial Foundation. The proceeds of the EDB grant will be used to assist International Business Machines (IBM) in Lexington, Ky to relocate the IBM Global Technology Center to leased space at the University of Kentucky Coldstream Research Campus. Mr. Bratcher noted that the company had considered relocating to other places, including North Carolina.

Representative Damron made a motion to approve the EDB grant for the Lexington-Fayette Urban County Government/Lexington Industrial Foundation. The motion was seconded by Representative Marcotte and passed by voice vote.

Next, Mr. Bratcher reported an EDB grant to benefit the Dana Corporation in Owensboro. The Cabinet is proposing a grant of \$400,000 to the City of Owensboro to purchase equipment and lease it to the Dana Corporation in Owensboro, Ky. for five years at \$1 per year.

Representative Damron made a motion to approve the EDB grant for the City of Owensboro. The motion was seconded by Representative Marcotte and passed by voice vote.

Lastly, Mr. Bratcher reported a \$250,000 EDB grant for the City of Hopkinsville. The proceeds will be used by the city to purchase equipment and lease it to the Dana Corporation in Hopkinsville, Ky. for five years at \$1 per year.

Representative Wayne said that Economic Development Cabinet Secretary, Gene Strong, noted in correspondence to the Committee that site development costs for the two Dana Corporation projects were "extraordinarily high". Representative Wayne asked why this was the case. Mr. Bratcher said he did not know, but he would find out and let the Committee know.

Representative Damron made a motion to approve the EDB grant for the City of Hopkinsville. The motion was seconded by Senator Leeper and passed by voice vote.

Representative Wayne then noted that Mr. Bratcher was retiring, and in honor of his work with the Committee, Representative Wayne made a motion to accept a resolution honoring Mr. Bratcher which he read. The motion was seconded and passed by voice vote.

Chairman Haydon also acknowledged Mr. Jack Affeldt, LRC Economists Office, with a citation upon his retirement from LRC.

Next, Mr. Tom Howard, Office of Financial Management, reported three items for the Committee's consideration. He first reported two follow-up reports for previously-approved bond issues: Kentucky State Property and Buildings Commission, Agency Fund Revenue Bonds, Project No. 66, Series A and B, for \$54,870,000; and Morehead State University Housing and Dining System Revenue Bonds, Series N for \$4,790,000 and Series O for \$4,625,000. Chairman Haydon said no action was required for the follow-up reports.

Mr. Howard reported three new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Boyle County; Calloway County; and Powell County.

Senator Leeper made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Representative Wayne and passed by voice vote. Representative Damron abstained from the vote, citing a potential conflict of interest.

Chairman Haydon said there were three locally funded school bond issues submitted to the Committee for review this month: Boone County; Larue County; and Metcalfe County. He said all disclosure information has been filed and no further action on these bond issues is required.

Chairman Haydon said also enclosed in members' folders was a final report on the \$148,000,000 Tax and Revenue Anticipation Note issued by the Kentucky Interlocal School Transportation Association and reviewed by the Committee at its June meeting.

Chairman Haydon said the Committee's next meeting is scheduled for Tuesday, August 15, 2000 at 1:00 p.m. in Room 129 of the Annex.

With there being no further business, Representative Damron made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 2:10 p.m.